

**TENNESSEE GENERAL ASSEMBLY
FISCAL REVIEW COMMITTEE**



FISCAL NOTE

SB 2660 – HB 3235

January 25, 2012

SUMMARY OF BILL: Effective January 1, 2013, enacts the Educate and Employ Act of 2012, which authorizes franchise and excise tax credits for employers providing educational assistance to employees equal to 25 percent of the lesser of: the actual amount of educational assistance paid to an employee through an educational assistance program, or, the maximum allowable amount that the employee may exclude from gross income for federal income tax purposes under §127 of the Internal Revenue Code. Such credits shall be allowed against the sum total of the employer's franchise and excise tax liability. Authorized franchise and excise tax credits shall not exceed a taxpayer's total tax liability. Authorizes eligible taxpayers to carry forward any unused tax credits for up to 10 years. Requires the Department of Revenue (DOR) to promulgate rules and regulations.

ESTIMATED FISCAL IMPACT:

**Decrease State Revenue - \$12,813,000/FY12-13
\$25,626,000/FY13-14 and Subsequent Years**

**Increase State Expenditures - \$4,800/One-Time
\$32,500/FY12-13
\$65,000/FY13-14 and Subsequent Years**

Assumptions:

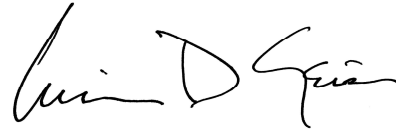
- The maximum allowable amount of educational expenses that an employee may exclude from gross income for federal income tax purposes under §127 of the Internal Revenue Code is currently \$5,250.
- According to the Tennessee Higher Education Commission, there were 406,755 higher education students in Tennessee during the fall semester of 2010. This number is assumed to remain constant.
- Based on information from the U.S. Census Bureau – Survey of Income and Program Participation (2008), approximately 6.3 percent of higher education students receive employer tuition assistance.
- The annual number of students whose employers could receive tax credits is estimated to be 25,626 (406,755 x 6.3%).
- The maximum allowable franchise and excise tax credit that may be claimed in any given year by an eligible employer is \$1,312.50 (\$5,250 x 25%) per employee receiving tuition assistance.

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- The average tax credit claimed by eligible employers is estimated to be \$1,000 per year for each employee receiving tuition assistance.
- One hundred percent of employers offering tuition assistance to employees will claim the proposed tax credit.
- The recurring decrease in state revenue is estimated to be \$25,626,000 (25,626 x \$1,000).
- DOR will require one additional Tax Auditor 4 position for ensuring taxpayer compliance. One-time state expenditures related to this position are estimated to be \$4,800 (computer and software). The recurring increase in state expenditures related to this position will be \$65,000 (salary and benefits).
- The first-year impact is estimated at 50 percent of the first full-year impact due to the proposed January 1 effective date.

CERTIFICATION:

The information contained herein is true and correct to the best of my knowledge.

A handwritten signature in black ink, appearing to read 'Lucian D. Geise', written in a cursive style.

Lucian D. Geise, Executive Director

/rnc